



Jamie M. (Mike) Tan
Associate Director
Federal Regulatory

SBC Telecommunications Inc.
1401 I Street NW, Suite 1100
Washington, D.C. 20005
Phone 202 326-8859
Fax 202 408-4809
E-Mail: jtan@corp.sbc.com

November 5, 2002

VIA ELECTRONIC FILING

Ms. Marlene Dortch
Secretary
Federal Communications Commission
The Portals
445 12th Street SW
Washington DC 20554

Re: CC Dockets No. 96-45, 98-171, 90-571, 92-237, 99-200, 98-170, 02-33, 95-20, 98-10 and
NSD File No. L-00-72.

Dear Ms. Dortch:

On November 5th, the attached document was transmitted via electronic mail to all the addressed parties listed therein. Pursuant to section 1.1206 of the Commission's rules, SBC is filing this document via the Commission's Electronic Comments Filing System such that it can be included in the record for the FCC's open proceeding in the above referenced dockets.

Should you have any questions about the attached filing, please do not hesitate to contact me via whichever means are most convenient for you.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "J. M. Tan". The signature is written in a cursive, flowing style with a large initial "J" and a stylized "M".

Attachment

November 5, 2002

VIA ELECTRONIC MAIL

Mr. William Maher
Chief – Wireline Competition Bureau
Federal Communications Commission
The Portals
445 12th Street SW
Washington DC 20554

Re: CC Dockets No. 96-45, 98-171, 90-571, 92-237, 99-200, 98-170, 02-33, 95-20, 98-10 and NSD File No. L-00-72.

Dear Mr. Maher:

SBC and BellSouth propose to modify the connections-based methodology discussed in the Commission's *Further Notice of Proposed Rulemaking* to address concerns that it does not satisfy the requirements of section 254. We believe the alternative methodology discussed in the attached proposal maintains the benefits of a connections-based approach by ensuring that competing technologies and telecommunications providers are subject to a comparable contribution assessment, which is not the case today. At the same time, the alternative methodology provides a workable mechanism for assessing an "equitable and nondiscriminatory" contribution on every provider of interstate telecommunications services, as required by section 254.

The alternative methodology proposed by SBC and BellSouth retains a connections-based assessment for most types of interstate telecommunications services, including bundled switched local and interstate long distance services, interstate telecommunications services with non-switched connections and wireless services. In those cases where an end user buys switched local service and interstate long distance service from different carriers, one half of the connection assessment is assigned to the local service and the other half of the connection assessment is used to calculate a residual funding requirement. *This residual funding requirement will be recovered from IXC's (including dial-around and prepaid calling card providers) on a revenue basis.* These modifications address many of the administrative concerns that were raised about assessing a flat connections-based assessment on IXC's. Moreover, as the market evolves toward more bundled service offerings, connections-based assessments will become an even larger portion of the contribution base.

In addition, as discussed in SBC's and BellSouth's ex parte dated October 10, 2002, the Commission should adjust the end user connection tiers and bandwidth capacity units proposed in the *Further Notice of Proposed Rulemaking* to ensure a reasonable relationship between the contribution obligation for basic switched services and the contribution obligation for high-capacity services. These design adjustments will obviate the need for business/residence distinctions and a cap on the residential assessment.

SBC and BellSouth believe a connections-based approach can be implemented in one year (*i.e.*, by January 1, 2004). In the meantime, the Commission should modify its existing revenue-based methodology during the one-year transition period. As of April 1, 2003, the Commission should implement the following changes: (i) eliminate lag issues by implementing a "bill and remit" process; (ii) establish an uncollectible safe harbor in the funding demand; (iii) increase the wireless safe harbor percentage and require a company-wide election; and (iv) remove DSL services from the contribution base pending a decision in the *Wireline Broadband Notice of Proposed Rulemaking*. These modifications will ensure a smooth transition to a connections-based approach by addressing some of the most immediate problems with the current contribution mechanism.

We would be happy to meet with you to discuss this proposal in more detail. Please do not hesitate to call us if you have any questions.

Sincerely,



David J. Hostetter
SBC Telecommunications, Inc.
(202) 326-8811



W.W. (Whit) Jordan
BellSouth Corporation
(202) 463-4114

Attachment

cc: Christopher Libertelli
Matthew Brill
Jordan Goldstein
Daniel Gonzales
Carol Matthey
Eric Einhorn
Diane Law Hsu
Paul Garnett

Alternative Connections-Based USF Contribution Methodology

1. The Commission should adopt a modified connections-based contribution methodology.
2. Assessments should be based on the following criteria beginning January 1, 2004.
 - (a) Contributions should be assessed on end user connections whenever an end user's carrier for switched local service is also the end user's carrier for switched long distance service. Each end user connection should be assessed a full end user connection charge in accordance with 4(c).
 - (b) When an end user's carrier for switched local service is not the end user's primary long distance carrier for switched long distance service:
 - (i) The carrier providing the end user's switched local service should be assessed based on end user connections, but the assessment should be one half of the end user connection charge described in 4(c).
 - (ii) The carrier providing the end user's switched long distance service as a primary long distance carrier should be assessed based on its interstate long distance service revenues generated by this category of end user as described in 4(d).
 - (c) Contributions for "occasional use" services, e.g., dial-around long distance, prepaid calling card, operator services, etc., should be assessed based on interstate revenues generated by end users that use these services as described in 4(d).
 - (d) The carrier providing an end user with a non-switched connection to an interstate private line service or to a switched long distance service should be assessed based on end user connections. Each end user connection should be assessed a full end user connection charge in accordance with 4(c).
3. The end user connection tiers and related bandwidth capacity units proposed in the Commission's FNPRM should be adjusted to ensure a reasonable relationship between the contribution obligation for basic switched services and the contribution obligation for high-capacity services. These design adjustments should obviate the need for business/residence distinctions and a cap on the residential assessment.
4. The annual funding requirement should be allocated on an end user connection basis.
 - (a) The connections-based methodology should rely upon projected annual universal service funding requirements, the previous year's end user connections and the previous year's interstate end user long distance revenues.

Alternative Connections-Based USF Contribution Methodology

- (b) The annual funding requirement should be divided by total end user connections (expressed in bandwidth capacity units) to develop an *end user connection base factor*.
 - (c) An *end user connection charge* should be calculated by multiplying the end user connection base factor by the number of bandwidth capacity units assigned to the end user connection. Services described in 2(a) and 2(d) should be assessed a full end user connection charge.
 - (d) For the switched services described in 2(b), one half of the end user connection charge should be assessed to the switched local service. The other half of the end user connection charge should be multiplied by the total number of end user connections in 2(b) (including end user connections in 2(b) without a primary long distance carrier) to calculate a residual funding requirement. The residual funding requirement should be allocated to carriers providing switched long distance services described in 2(b)(ii) and occasional use services described in 2(c) based on a percentage applied to a carrier's interstate end user revenues generated by these services.
5. The Commission should eliminate lag issues by converting from a pre-determined contribution obligation based on a carrier's historical data to a "bill and remit" process. Under a bill and remit process, a carrier would report its current end user connections and/or revenue data on a monthly basis and remit its contribution based on that same billed data.
6. The Commission should determine a reasonable estimate of universal service recovery charge revenue that cannot be collected due to bad debt and include it in the annual funding demand. This uniform "uncollectible" amount should serve as a safe harbor unless a service provider makes a showing to demonstrate that its uncollected revenues significantly exceed the safe harbor. Service providers should deduct the safe harbor from their contribution payments before they are remitted.
7. The Commission should continue to assess contributions as a percentage of interstate end user revenues through December 31, 2003. The following changes should be made to the current revenues-based contribution methodology beginning April 1, 2003:
- (a) Remove wireline DSL services from the USF contribution base when they are sold to affiliated or unaffiliated ISPs for the provision of high speed Internet access services. The Commission held in the *Bulk Services Order* that broadband Internet access service provided to an ISP is not a retail service because the ISP is not the ultimate end user. The Commission should clarify that, for universal service purposes, an ISP is not an end user when it purchases DSL Internet access services from a wireline provider. Universal service issues related to broadband services should be addressed in the *Wireline Broadband NPRM* (Title I) proceeding.

Alternative Connections-Based USF Contribution Methodology

- (b) Increase the wireless safe harbor percentage, which applies unless a wireless carrier can determine its actual interstate end user revenues. The safe harbor percentage should increase to a level that produces USF contributions equivalent to those assessed to switched wireline services. Require wireless carriers to apply the safe harbor percentage on a company-wide basis rather than a market-by-market basis.
- (c) Implement the bill and remit process to eliminate the lag issues.
- (d) Implement the safe harbor for uncollectible recovery charge revenues.